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## Schwarzenegger Gets Bill Boosting Negotiated GO Sales

by: [Rich Saskal](#)

Monday, August 31, 2009

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SAN FRANCISCO — California lawmakers last week sent Gov. Arnold Schwarzenegger a bill giving more local governments the authority to issue general obligation bonds through negotiation.

AB 1388, which passed unanimously at every step of the process, also repeals level debt-service requirements for such bonds.

Assemblyman Ed Hernandez, D-West Covina, sponsored the bill at the behest of the California Public Securities Association, a municipal underwriting trade group.

In a comment supplied as part of the legislative staff's analysis of the bill, the CalPSA said it would give local governments the flexibility and certainty they need to sell bonds during uncertain times.

“This ability to pre-market bonds is a primary advantage of a negotiated sale in that the underwriter can generate interest among potential purchasers of the bonds prior to the time the interest rates are actually determined,” according to the trade group's written comment. “A negotiated bond sale therefore provides greater certainty to the underwriters as a book of orders can be determined before the actual sale. As a result, the interest rates on bonds can better reflect the market with a reduced need to build in allowances for risk.”

K-12 school districts and community college districts — the largest issuers of local GO debt in California — have been permitted to use negotiated sales since 1999.

In most cases, school and community college districts can issue GO bonds by obtaining a 55% approval rate in a bond election. All other local GO elections require a two-thirds vote.

“School districts, community college districts, and the state of California commonly use the negotiated sale method to issue GO bonds,” according to a report Senate Local Government Committee staff prepared before the panel approved the bill in June. “A limited number of other local governments have successfully issued GO bonds through negotiated sales under the authority of city charters, the Marks-Roos Act, and other statutes. AB 1388 simply gives local governments the same authority that is already used by school and community college districts.”

During the first half of 2009, negotiated sales accounted for about 96% of California's new-issue municipal bond market by volume, and the 31 competitive sales represented about 3.4% of the total volume of bond sales, according to Thomson Reuters data.

The Senate committee staff report argued that level debt service requirements, which were repealed in the final bill, are unnecessarily burdensome.

“Rather than allowing local governments to improve their overall debt structure while protecting taxpayers from extreme property-tax rate fluctuations, this provision

has produced divergent bond counsel opinions and unnecessarily complex issues of multiple series of bonds,” the report said. “Confusion can significantly increase issuance costs.”

Schwarzenegger, as is the case with the vast majority of bills before the Legislature, has given no advance indication about his opinion on the legislation.

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